

FINANCIAL LITERACY AS THE KEY TO FINANCIAL INCLUSION

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Abstract *Financial inclusion is one of the most important tools for the sustainable growth of an economy. The pace of financial inclusion will be determined by how the marginalised, without knowledge of banking, are taught the basics of dealing with money. Financial literacy is now becoming a new trend in developed and developing countries, to spread awareness on budgeting, money management, saving and investment, credit, insurance, and so on. Globally, only one in three adults show an understanding of basic financial concepts (Klapper et al., 2015). Many schemes are undertaken by the government to ensure an inclusive growth. There are many factors that act as barriers in attaining financial inclusion, with the lack of financial literacy at the top (Atkinson & Messy, 2013). There is no upper limit for financial literacy, as the developments and new instruments in the financial markets are growing. Therefore, the financial regulators are bringing initiatives to increase the financial literacy of the people so that they become wiser investors and assist in the wealth creation of the economy. The present paper is descriptive in nature and analyses the conceptual aspects of financial literacy and financial inclusion, with the help of secondary sources of information such as earlier literatures, news bulletins, books, and so on.*

Keywords *Financial Inclusion, Financial Literacy, NSFE, NCFE*

INTRODUCTION

A nation is said to be developed when all sections of the community enjoy the benefits of economic growth. Inclusive growth is the economic growth that is distributed fairly across society and creates opportunities for all. Skill development, financial inclusion, technological advancement, social advancement, and so on, are some of the key elements of inclusive growth. Reducing poverty, improving quality of life, and ensuring that all sections of the society enjoy the benefits of development are at the crux of inclusive growth. People would feel more motivated and involved if the benefits of economic growth is allowed to flow to all people, irrespective of their financial status. Financial inclusion is necessary for inclusive growth, as it leads to a culture of saving, which initiates a virtuous cycle of economic development. India, a fast-growing economy, is looking to establish a more stable financial system by gradually eliminating the barriers of limited or no access to financial services for a vast majority of the population which is poor in financial literacy. A growing number of studies and evidence suggests that financial literacy is one of the most important determinants of financial well-being. Financial literacy and education are the fundamental elements of financial inclusion and empowerment of people, especially with regards to changing the pace of innovative advancement and the progression of computerised financial services. Financial inclusion refers to efforts to make

financial products and services accessible and affordable to all individuals and businesses, regardless of their personal net worth or company size.

Financial inclusion can be seen as a catalyst to inclusive growth and sustainable development of the country. Whatever the inclusion measures adopted, financial literacy plays a key role in the adoption of financial inclusion. Therefore, we can say that financial literacy is the first step towards financial inclusion. Financial inclusion will enable the poor of our country to open a bank account to save and invest, to borrow and to repay, and to take part in the credit. This will enable them to break the chain of poverty. Financial inclusion means people have access to and can use a range of financial products and services. The pace of financial inclusion will be determined by how the unbanked population can be taught the basics of finance. The first move in this regard was made with the Pradhan Mantri Jan Dhan Yojana with which 80% of the population has a bank account. Now the challenge lies in activating these accounts, as most of these accounts have remained passive since inception. Mere opening of an account will not help in attaining inclusion, because if account holders do not know how to optimise the financial options available to them, policies, schemes, and financial instruments are of little use. The only way to make people become actively involved in transactions is to educate them. Hence, financial literacy and education can be identified as pre-requisites for financial inclusion.

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REVIEW OF LITERATURE

Literature review helps in identifying the extent to which studies are conducted in the concerned area. It is done to find the gap for the current research.

Grohmann et al. (2018) analysed the proportion of people considered to be financially literate, and the four measures of financial inclusion. A positive and significant relationship between financial literacy and financial inclusion was found, and they suggest financial education as an important tool for financial development, in addition to the expanding financial infrastructure. Absence of proper knowledge of financial environment and its various phenomenon, like inflation, credit crunch, risk return framework, and so on, in the minds of the customers, will make it difficult for people to understand the intent of the policy initiatives, and in turn, affect their current and long-term planning (Kumar, 2016). Importance of training in inclusive growth is identified by the changes in the financial behaviour of people. After providing training, it is observed that beneficiaries of financial literacy training showed a positive change by opening an account and saving money in the account. There is a positive relationship between financial literacy and financial inclusion; however, among the aged people much impact could not be made (Koomson et al., 2020). Individual characteristics and economic circumstances play an important role in determining financial inclusion of adults, after considering the economic development of the country. Factors that enhance financial inclusion among individuals are higher level of education and income (Yangdol & Sarma, 2019). Factors that influence the demand for financial inclusion are income, accessibility, culture, literacy, and assets. Accessibility has the highest correlation, followed by literacy with a moderate correlation; the assets possessed by a person is the least important of these factors as a driver of financial inclusion (Ghatak, 2013). Financial development creates conditions for growth through either a demand-pull or supply-led process. The factors influencing loans and borrowings are classified into demand-side factors and the factors influencing the different saving instruments are defined as supply-side factors (Nagadevara, 2009). Financial literacy is one of the leading forces affecting people's ability to access financial services in rural areas. Comprehensive and long-term financial education has to be given to the rural people to take a leap in financial inclusion, which is the key driver of poverty reduction (Hasan et al., 2021). Financial illiteracy is a critical barrier to financial inclusion. Due to lack of knowledge about finance and financial products, many people are not in a position to access financial services, and therefore, are kept out of the financial market. Hence, financial literacy is highly important to people's financial well-being and the overall health of a country's economy

(Klapper et al., 2015). Samanta et al. (2019) studied how financial literacy leads to empowering the socio-economic condition of tribal through information technology and the impact it makes in the day-to-day life of the rural people. The study finds that information technology plays a vital role in effectively implementing the financial literacy programme; and it also identifies that the traditional mind-set of the tribal people have changed a lot and they are aware of the various instruments like mobile banking, debit card, credit card, and so on. Various causes of financial exclusion have to be addressed through financial literacy. Having proper literacy will help people avail credit through financial institutions (Nanda et al., 2017).

LITERATURE GAP

Based on the analysis of earlier studies, it is found that the literature on financial literacy and financial inclusion is very scarce and there is a need for studying the conceptual aspects of financial literacy and its impact on financial inclusion. Therefore, the present study aims at conceptually analysing the financial literacy as a key to financial inclusion.

OBJECTIVES OF THE STUDY

From the analysis of the literature, the following objectives were framed for the present study:

- To understand financial inclusion and its significance.
- To understand financial literacy as the demand side of financial inclusion.
- To identify the measures for developing financial literacy.

METHODOLOGY

The present study is conceptual and descriptive in nature, based on secondary sources of information gathered through books, journal articles, published reports, and so forth.

DISCUSSION

Financial Inclusion

“Financial inclusion refers to the process of promoting affordable, timely and adequate access to a wide range of regulated financial products and services and broadening their use by all segments of society through the implementation of tailored existing and innovative approaches including financial awareness and education with a view to promoting financial wellbeing as well as economic and

social inclusion” (Atkinson & Messy, 2013). In the Indian subcontinent, the concept of financial inclusion was first familiarised in 2005 by the Reserve Bank of India, with the release of the Annual Policy Statement. Soon, the concept started to spread to every part of the nation. It was chiefly introduced to touch every corner of the country without ignoring the remote areas. The concept addressed the absence of a formal financial system and banking system for catering to the monetary requirements of the poor people. Along with the consumer protection framework, financial inclusion is vital to the empowerment of individuals and overall stability of the financial system. Financial inclusion can help in reducing poverty and inequality by helping people invest in the future and manage financial risks. Financial inclusion, at the most basic level, starts with having an account in a bank or any other financial institution, which can be used to make and receive payments and to store or save money. For increasing the level of financial inclusion, the Government of India and the Reserve Bank of India have taken many actions, like the nationalisation of banks, priority sector lending requirements, service area approach, self-help group bank linkage programmes, and so on.

The common measures of financial inclusion are the number of bank accounts per adult, demographic branch penetration, geographic branch penetration, geographic ATM penetration, and so on. There is a strong positive association between financial inclusion and human development. Mass financial literacy and awareness among the marginalised sections of people are absolutely necessary to achieve financial inclusion (Bagli & Dutta, 2012).

Government Schemes for Financial Inclusion

Financial inclusion is the process of promoting affordable, timely, and adequate access to a wide range of regulated products and services. The Central Government and the various State Governments are taking several initiatives and introducing many schemes for the purpose of financial inclusion. These schemes intend to provide social security to the less fortunate sections of the population. The following are a few Central Government schemes for financial inclusion.

- Pradhan Mantri Jan Dhan Yojana is launched by the Government of India to provide easy access to financial services such as remittance, credit, insurance, pension, and savings and deposit account for the poor and needy section of the society. Under PMJDY, 44 crore accounts have been opened, with deposits amounting to Rs. 1,46,959.63 crores, up to December 1, 2021.
- PMJDY (Beneficiaries as on 01/12/2021)

Bank Name / Type	No. of Total Beneficiaries (in Crores)	Deposits in Accounts (in Crores)
Public sector bank	34.71	114315.37
Regional rural bank	8.01	28064.34
Private sector bank	1.28	4579.92
Grand total	44	146959.63

Source: Department of Financial Services.

Though the account holders have substantially increased with PMJDY, the usage of accounts in terms of savings and borrowings is still very low. Gender, age, income, and education have a significant impact on the various measures of financial inclusion. A study identified that education and income-enhancing measures can be used to move the economy towards more savings, and thus, inclusion (Dar & Ahmed, 2020).

- Pradhan Mantri Suraksha Bima Yojana was introduced by the government to encourage the citizens of India to get insurance access and coverage. The minimum annual premium is Rs. 12 and subscribers are given two types of insurance coverage. Insurance cover for partial disability is Rs. 1 lakh and complete disability or death is Rs. 2 lakhs. The total number of enrolments stand at 26.85 crores as on 31 October 2021.
- Pradhan Mantri Jeevan Jyothi Yojana was introduced to provide insurance for the poor of the country and raise awareness on the need for an insurance cover. Risk coverage of Rs. 2 lakhs is given for a premium of Rs. 330 per annum.
- Atal Pension Yojana was introduced by making amendments to the already existing National Pension Scheme. It is a move to make people aware of the need for retirement corpus, either as an investment or to earn a monthly pension. A total of 3.5 crore subscribers have enrolled under the Atal Pension Yojana as on 31 October 2021.
- Pradhan Mantri Mudra Yojana is a scheme for providing loans up to Rs. 10 lakhs to the non-corporate and non-farm small/micro enterprises. Loans taken do not require collaterals. These measures are aimed at increasing the confidence of young, educated or skilled workers who would now be able to aspire to become first-generation entrepreneurs; existing small businesses, as well, will be able to expand their activities. As on 20.08.2021, Rs. 16,22,203 crores was sanctioned in 30.7 crores accounts.
- Stand-up India Scheme facilitates bank loans between 10 lakhs and 1 crore to at least one SC/ST borrower and at least one woman borrower per bank branch, for setting up a greenfield enterprise. The scheme intends

to leverage the institutional credit structure to reach out to these underserved sectors of the population in starting greenfield enterprises. It caters to both ready and trainee borrowers. As on 23.08.2021, Rs. 26,688 crores has been sanctioned in 1,18,462 accounts.

- Sukanya Samridi Yojana is a scheme aimed at the betterment of a girl child in the country. It is launched to offer a means of savings for a girl child in every family.
- Wage payments through MGNREGS has initiated the biggest financial inclusion drive, with the requirement that all wage payments be made through banks and post offices.

With the United Nations Sustainable Development Goals (SDGs) emphasising financial inclusion as a key enabler for achieving sustainable development worldwide, countries across the globe are developing suitable policies and strategies to increase the access and usage of formal financial services. The financial inclusion policies and strategies adopted by various countries will be unique, as there are variations in government priorities, institutional capacity, evolution of financial markets, and so on.

Many factors contribute towards achieving financial inclusion. It takes time to realise the benefits of financial inclusion policies. Hence, a long-term vision and well-coordinated approach are required, for which a strong leadership is essential. A strong regulatory and legal framework is required to protect the customers' interest with adequate space for innovations. Only an informed customer can take proper financial decisions; this makes us realise the importance of financial literacy (WORKSHOP, 2010).

Financial Literacy

Strengthening financial inclusion has been one of the most important developmental agendas of the Government of India and the four strong financial sector regulators, that is, RBI, SEBI, IRDA, and PFRDA. Financial literacy supports in achieving financial inclusion by empowering the customers in making informed financial decisions (Nurul et al., 2013). Financial literacy is the first step towards achieving financial inclusion. Financial literacy is considered as an important adjunct for promoting financial inclusion, financial development, and ultimately, financial stability. Financial literacy can be broadly considered as the capacity to be familiar with and understand financial market products. It is the ability to take effective decisions regarding use and management of money, which is an important requirement for effective functioning in a society. In India, the need for financial literacy is higher, considering the large section of

population with a lower literacy rate that still remains out of the formal financial set-up, especially in the rural areas. Without financial literacy, the successful use of financial services to manage money becomes impossible. It is vital for the well-being of every consumer and community in the world. Unless financial literacy becomes a primary focus, the problem of financial exclusion will continue to grow. Many challenges stand in the way, from the simple lack of awareness about financial inclusion and financial literacy, to concerns regarding banking products and documentation processes. Making people, companies, and government institutions more aware of financial inclusion is an excellent first step.

Financial Literacy Initiatives in India

Financial inclusion and education are the two important elements in the Reserve Bank of India's developmental role. RBI has been conducting the Financial Literacy Week (FLW) every year, since 2016, to disseminate financial education messages on a particular theme across the country. Financial literacy week is an initiative by the RBI to promote awareness on key topics every year, through a focused campaign. The theme selected for the financial literacy week 2021, which was observed from Feb. 8-12, 2021, was 'Credit discipline and credit from formal institutions'.

The RBI also releases the Financial Awareness Messages (FAME) booklet that intends to provide basic financial literacy messages for the information of the general public. These measures are taken to create awareness about financial products and services, good financial practices, going digital, and consumer protection (Nurul et al., 2013). It contains product-neutral financial awareness messages, like documents to be submitted for opening an account, savings and responsible borrowing, maintaining a good credit score by repaying loans on time, usage of electronic remittances, knowing how to lodge complaints in banks, and so on. It educates people on what interest is and how it is calculated.

Financial literacy enables a customer to have proper awareness about financial products, the ability to choose the right product, and the proper awareness about available grievance redressal mechanisms. Therefore, the emphasis is to increase financial awareness among the various vulnerable groups, like women, youth, children, elderly, small entrepreneurs, and so on. The RBI has developed tailored financial literacy content for five target groups – farmers, small entrepreneurs, school children, self-help groups, and senior citizens, which can be used by the trainers in the financial literacy programme. Audio visuals have also been designed for the benefit of the general public on topics related to financial literacy.

For the target group farmers, financial literacy measures include the basic requirement a farmer needs, like how to join a KYC (Know Your Customer) scheme, its benefits, and how to avoid distress sale of farm products by using financing against warehouse receipts, about crop insurance, and so on.

For the entrepreneurs, FAME focuses on loan application processes, whether entrepreneurs are given loans without collateral, and so on. For school children, a very good and understandable explanation is given on the difference between needs and wants, introduction to banking, basics of insurance, investment and pension, educational loans, and financial sector regulators.

FAME for self-help groups discusses KYC for savings bank account of the self-help group, margin and security norms, good principles of SHG, and so on.

Centre for financial literacy project (CFL) is an innovative way to impart financial education through the community approach. This project has been conceptualised by the RBI in 2017. It is an innovative and participatory approach to financial literacy at the block level, involving select bank and non-governmental organisations (NGO). It was initially set up in 100 blocks on a pilot basis; now the project is being scaled up across the country, in every block, in a phased manner, by March 2024.

The National Strategy for Financial Education (NSFE) has been prepared for the period 2020-2025 by the National Centre for Financial Education (NCFE), in consultation with the four financial sector regulators. The NCFE is a registered company under Section 8 of the Companies Act of 2013. This company is promoted by RBI, SEBI, IRDA, and PFRDA.

The intention of the NSFE document is to support the vision of the Government of India and the financial sector regulators, by empowering the people to develop adequate knowledge, skills, attitude, and behaviours that are needed to manage their money better and plan for their future. For achieving this vision, some strategic objectives have been laid down, like encouraging active savings behaviour, inculcating financial literacy concepts among various sections of the population, encouraging participation in the financial market, developing credit discipline, and so on. For achieving this objective, the document recommends the adoption of the '5C' five core action approach for dissemination of financial education. The 5 Cs stand for content, capacity, community, communication, and collaboration.

SEBI has empanelled resource persons throughout India, who are trained on various aspects of finance and have a strong knowledge of financial markets. These resource

persons impart financial education to school and college students, working executives, retired personnel, self-help groups, and so on.

IRDA has also taken initiatives in the area of financial literacy. Awareness programmes have been conducted to communicate messages about the rights and duties of policyholders, channels available for dispute redressal, which is disseminated through the television, radio, and through the print media in Hindi, English, and 11 other languages. IRDA has also published the 'Policyholder Handbook', as well as a comic book series on insurance.

CONCLUSION

Everyone who earns an income is a potential saver, and only a saver can be an investor. For making good investments, an investor should be financially literate. As we have seen here, so many initiatives are being taken by the government to ensure inclusive growth. In spite of having so many financial inclusion schemes, lack of awareness is a hurdle in achieving the desired results. The government and all the financial regulators are taking measures to promote financial literacy among the people. As many people are facing linguistic barriers, financial literacy measures are provided in different languages. The government should continue to focus more on increasing the awareness and financial literacy of the people.

LIMITATION AND SCOPE FOR FURTHER RESEARCH

The main limitation of the study is its conceptual nature. Further research can be carried out in an empirical manner, using primary data.

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